

▶ Read more opinion and letters, and see more of David Rowe's award-winning cartoons at [afr.com/opinion](http://afr.com/opinion)

Edited by Kevin Chinnery: [kchinnery@ FairfaxMedia.com.au](mailto:kchinnery@ FairfaxMedia.com.au)

# Labor's lack of real aspiration hurts the poorest

## THE AFR VIEW

**I**t's official. The Labor Party has now forgotten – or is simply apathetic towards – the aspirational class of Australians that Labor treasurer Paul Keating created in the 1980s by modernising the Australian economy and creating opportunity for working-class people.

A generation later, modern Labor dismisses this as trickle-down neo-liberal economics that just benefits Malcolm Turnbull's rich banker mates. Bill Shorten doesn't actually believe it: as a political opportunist he simply senses that there are more votes in economic populism, class envy and abstract grievances than in actually improving people's real lives.

This new attitude was summed up by Labor's Tanya Plibersek – whose career has relied on taxpayer-funded jobs in universities, the bureaucracy and politics – saying that "honestly, this aspiration term, it mystifies me". The Deputy Leader of the Labor Party – herself an aspirational daughter of Slovenian immigrants who worked hard, became dux at her school in Sydney's Sutherland Shire and became a minister of the Commonwealth –

argues against the notion that government should not impose punitive taxes on people who pull themselves up by their bootstraps and modestly improve their lot. It is this attitude that sums up the rotten core of modern Labor: its complete

*It is this attitude that sums up the rotten core of modern Labor.*

dissociation from the people it is meant to represent. Instead, most of its MPs are humanities graduates from universities where the world is taught through a prism of abstractions: inequality, neo-liberalism, power relations, capitalist superstructures, socialism and gender constructs. Labor parties of the past, with representatives actually drawn from the people the party purports to represent, were concerned with practically improving the lot of people they represented. This disconnect reflects the findings in a new Centre for Independent Studies report that nearly 60 per cent of Millennials reckon capitalism has failed and government should expand. Almost two-thirds think ordinary workers are worse off than 40 years ago. Try telling that to Bob Hawke and Paul Keating, whose economic liberalisation laid the foundation for Australian household per capita incomes to grow, in real terms, by two-thirds since the 1990s, while barely increasing income inequality.

To advance its absurd new class war, Mr Shorten and Labor have resorted to the outrageous political lie that a doctor on \$200,000, earning five times the amount as a cleaner on \$40,000, will get 16 times the tax cut. How unfair! In fact, the doctor who earns five times as much as the cleaner actually pays 13 times more tax than the cleaner. Labor resorts to fake news by repeating and repeating that they would pay the same tax rate under the Turnbull government's tax scales to apply from 2024. Those scales would include a flat 32.5 per cent tax rate to apply every extra dollar earned between \$40,000 and \$200,000. But the \$18,200 tax-free threshold means that the doctor would end up paying 30 per cent of total income in tax, while the cleaner would pay 11 per cent of total income in tax.

In Parliament yesterday, Labor kept hammering example after example of workers earning around \$45,000 who would get a tax cut of \$10 per week, while a millionaire would get \$7000 a year extra from an "arrogant and out of touch" government led by Mr Turnbull. In the world of modern Labor, it isn't good enough that poor people do better, but the wealthy should be taxed more and more through bracket creep in order to bend the world to fit its Green-left undergraduate-level preconceptions about equality and social cohesion.

The outrageous lie here is that the Labor-Green snake oil of greater redistribution would end up hurting the less advantaged. Lower marginal tax rates, coupled with a removal of Australia's penalty tax on company profits, would drive incentive, business investment, productivity, the tax base, jobs and wages. But Labor doesn't believe in aspiration and doesn't want Australians to keep more of their money. Instead, a Shorten Labor government would simply slow the whole place down, leaving less money for Labor monuments, lower incomes, and hurting the poorest that it claims to represent the most. Fairness will turn out to be least fair on those Labor claims need it the most.

## From the Gallery

Peter Nicholson



# Tech is key to unlocking wages

**Boosting Australia**  
The US economy is returning to growth and normality because it is capturing the benefits of technology. We prefer tribal industrial warfare instead.



Richard Holden

It may not be the best of times for the United States, nor the worst of times for Australia. But it is certainly a tale of two economies.

Last week, the US Federal Reserve raised official interest rates for the second time this year and signalled two more 25-basis point hikes in 2018. In announcing the decision, Fed chairman Jay Powell enthused: "The decision you see today, is another sign the US economy is in great shape."

He's not wrong. Unemployment is 3.8 per cent and falling. Wages growth has picked up to 2.7 per cent. The Fed's preferred measure of inflation (the personal consumption expenditures or PCE index) has ticked up to 2.0 per cent into the Fed's target zone.

RBA governor Philip Lowe, by contrast, was far less upbeat in recent remarks to the Australian Industry Group on the same day. He lamented sluggish wages growth, saying: "Over recent times, wages growth around the 2 per cent mark has become the norm in Australia. Some time back, the norm was more like 3 to 4 per cent."

Unemployment is 5.4 per cent, but that is in part due to a fall in those looking for work. The participation rate fell from 65.7 per cent to 65.5 per cent in May, and only 12,000 new jobs were added across the country. The rate of underemployment rose 0.1 per cent to 8.5 per cent, putting the total under-utilisation rate at 13.9 per cent. No wonder wages aren't rising much. The RBA has left the cash rate

unchanged at 1.5 per cent for a record 20 consecutive meetings – since August 2016 – and looks set to extend that record. Lowe intimated that rates won't rise until wages growth gets above 3 per cent. That could take a while.

Of course, the real question is why the US labour market has bounced back so strongly while the Australian labour market languishes.

Part of the answers lies in the flexibility in the US. Minimum wages are relatively low, it's fairly easy to fire people and hence there is less caution in hiring people in the first place, and unemployment insurance typically runs out after less than three months, so people are highly motivated to look for work.

Australia and the US have made different choices about these policies. The US labour market is, to put it bluntly, just more brutal than Australia's. That brutality leads to lower unemployment – but most Australians prefer our system with its more generous safety net, even if it means that

*The OECD work on global frontier firms points to a number of policies that seem to help.*

unemployment is on average, say, 1 per cent higher than in the US. I know I do.

But those policy differences between the US and Australia haven't changed in recent times, yet the gap in labour market resilience has widened. Unemployment has become relatively higher in Australia and wages growth has become relatively lower. Why this change? Why now?

Lowe, in his speech, hinted at an intriguing but disturbing answer. New technologies that have driven productivity gains in the past decade or so have tended to be to do with software and information technology, not big new machines. But, as the OECD has documented, the adoption of these new technologies has not been uniform across firms. The firms most likely to adopt such technologies tend to be

larger, more profitable, younger, more likely to patent, and be part of a multinational group.

These firms, at the global productivity frontier, enjoy large productivity gains, which spread, in part, to labour. But in an increasingly globalised world, lagging firms that don't find it in their interest to adopt these new technologies fall behind. To remain competitive, they are left to focus on cost cutting – often by keeping a lid on wages growth.

So perhaps wages growth in Australia is sluggish because of the sectoral make-up of our economy in a world where advanced information technology, machine learning, and artificial intelligence are driving productivity gains.

That sounds depressing, but it doesn't mean there is nothing that can be done. The OECD work on global frontier firms points to a number of policies that, as an empirical matter, seem to help. Among these are: R&D tax subsidies, improved education, less punitive bankruptcy legislation, less stringent employment protection legislation, reduced red tape for startups, and better access to venture capital.

Around the world countries are adopting policies like these. Meanwhile in Australia we are engaged in tribal political disputes while our national productivity ebbs away. All-out brawls about Sunday penalty rates is not the answer. The answer to our productivity woes and troubling wages growth lies in the kind of policies that make it worthwhile for firms to adopt frontier technologies rather than focus on cost cutting alone.

Notice that these policies don't fit neatly into an ideological box. They involve greater investment in education but less stringent employment protection legislation, for example.

The economics of all of this are not too hard. It's down to politics. The side of politics that ditches the cheap shots and fortune-cookie policies, and adopts productivity policies for the modern, globalised economy will make Australia more productive, and in the process lift wages growth back to where it needs to be.

Richard Holden is professor of economics at UNSW Business School.